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FROM: J. Tyler McCauley *by RSM*
Auditor-Controller

SUBJECT: **PUBLIC LIBRARY FISCAL REVIEW**

We have completed a review of the Public Library's (Library) fiscal operations. Our review focused on evaluating the Library's internal controls and compliance with County fiscal policies and procedures in key fiscal areas including expenditures, revenue/cash, procurement, contracting, payroll/personnel, and fixed assets/portable equipment. We also reviewed the Library's budgetary performance and trust fund activities.

Summary of Findings

Budget

The Library has operated within its budget for the four-year period ending June 30, 2001. The Library has adopted a conservative approach to estimating its budget as it is, for the most part, financially independent and has no unrestricted reserves. The Library is to be commended for effectively estimating and monitoring its budget.

County Internal Control Certification Program

Library management needs to give a higher priority to accurately completing the Internal Control Certification Program (ICCP). Many of the internal control and fiscal policy compliance problems discussed in this report may have been identified if the Library had correctly completed its ICCP. This self-assessment process is an important administrative tool for management and its use needs to be better monitored.

Administrative and Financial Controls

The Library needs to improve its administrative and financial controls in several areas including trust fund oversight, expenditures, cash, procurement, contracting, payroll/personnel, and equipment accountability.

The following are examples of areas where improvements can be made in the Library's administrative and financial control practices.

Expenditure Accounting

Departments should accrue expenditures (accounts payable) when goods or services received in one Fiscal Year (FY) will not be paid until the next Fiscal Year. We noted instances where accounts payable were not accurately computed and where current year expenditures were charged against accounts payable. This practice incorrectly states the total amount of expenditures for the Fiscal Year.

Commitments are funds reserved to pay for goods/services that are ordered in one Fiscal Year, but will not be received until the next Fiscal Year. Leaving unnecessary commitments on the accounting records understates available fund balance. We noted instances where the Library did not cancel commitments that were no longer needed. For example, in FY 2000-01 we identified \$260,150 in commitments that should have been cancelled. After the Library cancelled these commitments, fund balance increased by \$260,150.

Library management should ensure that commitments are carefully reviewed to determine the amount that should be carried forward into the next Fiscal Year and that amounts no longer needed are cancelled. In addition, management needs to ensure that accounts payable are accurately computed and not used to pay current year expenditures.

Cash Handling Controls

The Library needs to improve its cash handling procedures to provide adequate internal controls over its cash collections. At one of the three branch libraries we audited, the required separation of duties was not maintained. Library management should review cash collection controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.

Procurement and Payment Practices

We noted several areas where the Library needs to improve its compliance with County purchasing requirements. The following are examples of problem areas noted:

- Required price quotes are not always obtained.

- Payments are sometimes being made without all necessary documentation such as receiving reports.
- Purchasing duties are not always sufficiently separated among individuals.

The Library needs to ensure that it compares invoice prices to the purchase orders before making payments. We noted \$57,000 in overpayments as a result of the Library not matching the invoice to the purchase order. We also noted that discounts totaling \$2,194 were lost because payments were not made within the discount period. Public Library management needs to more closely oversee its procurement operations and payment practices.

Contracting

Library management indicated that, due to staffing shortages, they were not effectively monitoring their contractors to ensure they are in compliance with the Living Wage Ordinance and County contract requirements. As a result, we performed reviews of two Library custodial contractors in April 2000, and September 2001. Our reviews identified several areas of non-compliance. Although one contractor has made improvements, the other contractor continued to refuse to provide basic timekeeping and payroll documentation.

Recently, the Library has taken action to improve its contract monitoring and ensure contractors correct deficient areas timely. The Library needs to continue its recent efforts to effectively monitor contractors' compliance with the Living Wage Ordinance and with the provisions of their County contracts. In addition, the Library needs to ensure that contractors correct deficiencies timely. Finally, the Library should initiate debarment proceedings against the contractor that refused to provide requested documentation.

Details of these and other findings and recommendations are included in the attached report.

Acknowledgment

We thank Public Library management and staff for their cooperation and assistance during our review. Management recognizes the need for improvement and has indicated its commitment to improving the Library's internal controls. The Public Library management's written response (attached) indicates general agreement with our recommendations and management indicated that they will provide a detailed response to the report within 60 days.

If you have any questions regarding this report, please contact me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:KVO

Attachment

c: David E. Janssen, Chief Administrative Officer
Margaret Donnellan Todd, County Librarian
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

Los Angeles County Public Library



Prepared by:
Department of Auditor-Controller

Public Library
Fiscal Review

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PUBLIC LIBRARY
Fiscal Review

Comments and Recommendations

Background

The County of Los Angeles Public Library (Library) is a special fund entity under the jurisdiction of the Board of Supervisors. The Library is financed primarily by property taxes, County General Fund contributions, parcel taxes, grants and fees. The Library's general fund Fiscal Year (FY) 2001-02 adopted budgeted appropriations were \$78.8 million. The County's General Fund contribution was \$15.6 million. The Library employs approximately 604 permanent and 1,050 temporary staff.

We conducted a review of the Library's fiscal operations. The review focused on evaluating the Library's internal controls for compliance with County policies and procedures in key fiscal areas including expenditures, revenue and trust, payroll and personnel, procurement, fixed assets and portable equipment. In addition, we reviewed the Library's budgetary performance, contracting practices, travel expenses, inventory controls, cashiering controls, cellular telephone and gasoline credit card usage.

Board Adopted Budget

Budgetary Performance

We compared the Library's actual financial results to the County budget for Fiscal Years 1997-98 through 2000-01 (see below). In each Fiscal Year, the Library operated within its budget.

Budget to Actual Financial Results
Fiscal Year 1997-98

	Budget	Actual	Over or <Under> Budget
Revenue	\$ 43,769,000	\$ 45,988,787	\$ 2,219,787
Expenditures	59,703,000	57,069,507	(2,633,493)
General Fund Contribution	13,673,000	13,673,000	-
Fund Balance Contribution	\$ 2,261,000	\$ (2,592,280)	\$ (4,853,280)

**Budget to Actual Financial Results
Fiscal Year 1998-99**

	Budget	Actual	Over or <Under> Budget
Revenue	\$ 47,153,000	\$ 49,695,671	\$ 2,542,671
Expenditures	65,760,000	63,353,555	(2,406,445)
General Fund Contribution	14,054,000	14,054,000	-
Fund Balance Contribution	\$ 4,553,000	\$ (396,116)	\$ (4,949,116)

**Budget to Actual Financial Results
Fiscal Year 1999-00**

	Budget	Actual	Over or <Under> Budget
Revenue	\$ 53,055,000	\$ 53,515,421	\$ 460,421
Expenditures	73,458,000	68,013,445	(5,444,555)
General Fund Contribution	15,548,000	15,408,000	(140,000)
Fund Balance Contribution	\$ 4,855,000	\$ (909,976)	\$ (5,764,976)

**Budget to Actual Financial Results
Fiscal Year 2000-01**

	Budget	Actual	Over or <Under> Budget
Revenue	\$ 54,726,000	\$ 56,411,499	\$ 1,685,499
Expenditures	75,206,000	71,343,144	(3,862,856)
General Fund Contribution	14,791,000	14,791,000	-
Fund Balance Contribution	\$ 5,689,000	\$ 140,645	\$ (5,548,355)

The Library does not have control over the revenue it receives from most of its revenue sources. Any variations in the revenue can affect its budgetary performance. The variances that occurred in all four Fiscal Years reviewed resulted from the Library receiving more revenue than budgeted while expenditures were less than budgeted. The Library has adopted a conservative budget approach and for the most part is financially independent and has no unrestricted reserves.

County Internal Control Certification Program

County Code Section 2.10.015 requires County departments to annually evaluate their fiscal controls using the County's Internal Control Certification Program (ICCP). The ICCP is intended to give departments the ability to assess their own internal controls and take corrective action to ensure compliance with County policies and standards.

When the Library evaluated its fiscal controls using the ICCP, management certified controls were in effect when they were not. Many of the internal control weaknesses discussed in this report may have been identified if the Library had correctly completed its ICCP.

Recommendation

1. **Public Library management give a higher priority to accurately completing the ICCP.**

Designations

A designation is an amount of available assets set aside to be utilized for specific purposes in a future period. We identified a Library designation totaling approximately \$862,000 as of December 2001. According to the Library, the \$862,000 represents monies received from a voter approved special tax to pay for enhanced Library services for the City of West Hollywood (City). The City requested the Library to establish the designation to fund the future relocation of the County Library in the City to a larger facility. The Library established the designation in FY 1995-96 and it has increased in amount in each subsequent Fiscal Year. However, the Library and the City have not developed a formal plan with timetables for using the funds. Library management should work with the City of West Hollywood to develop a formal spending plan with timeframes for using the designation.

Recommendation

2. **Public Library management work with the City of West Hollywood to develop a spending plan with timeframes for using the designation.**

Donation Trust Funds

We noted three trust funds with large balances on deposit for several years which had a combined balance of \$514,447 as of December 2001. A review of the Library's Donations Trust Account records, which are maintained separately from the three trust funds previously mentioned, disclosed that 31 of the 145 sub-accounts had no, or very little expenditures during July 1998 through July 1999. Since July 1999, the Donations Trust Account balance increased \$756,439, and totaled \$1,395,489 as of December 2001.

Since trust funds are not budgeted, the availability of these funds is not disclosed to the Board of Supervisors or public and can be overlooked by Library management. Library management should either transfer these funds to its general fund and expend them for their intended purpose or establish a budgeted special revenue fund to account for the expenditure of these funds in current and future periods. Either of these options would ensure that the availability of these funds is properly disclosed and that they are not overlooked.

Recommendation

- 3. Public Library management either transfer donations to its general fund and expend them for their intended purpose or establish a budgeted special revenue fund to account for the expenditure of these funds in current and future periods.**

Expenditure Accounting

Expenditure Accruals (Accounts Payable)

Departments should accrue expenditures and the related accounts payable when goods received in one Fiscal Year will not be paid for until the next Fiscal Year. The Auditor-Controller provides instructions to departments on how to account for and report these liabilities at the end of each Fiscal Year to help ensure the County has accurate records of its financial position and the results of operations.

We reviewed the accounts payable for Fiscal Years 1998-99 and 1999-00 and noted that, in several instances, accounts payable were overstated and were inappropriately used to pay for goods received in the following Fiscal Year. For example, we identified a payment voucher for approximately \$181,503 for goods received in FY 1999-00 that was charged against FY 1998-99 appropriations instead of FY 1999-00 appropriations. The Library management should ensure accounts payable are computed accurately and that current year expenses are paid with current year appropriations and are not charged against accounts payable.

Recommendation

- 4. Public Library management ensure accounts payable are computed accurately and that current year expenses are paid with current year appropriations and are not charged against accounts payable.**

Commitments

Commitments are funds reserved to pay for goods/services that are ordered in one Fiscal Year, but not received until the next Fiscal Year. Leaving unnecessary commitments on the books understates the year-end fund balance available to help finance the following year's budget. County Fiscal Manual (CFM) Section 4.3.1 requires

departments to review outstanding commitment balances and cancel any that are not needed.

At the beginning of FY 2000-01, the Library had 67 commitments totaling approximately \$3,582,000. The commitments were established for a variety of services including landscaping services, custodial services, book purchases, etc. Our review of these commitments disclosed the following:

- Commitments totaling \$260,150 were no longer needed and should have been cancelled because the final payments were made to the vendor prior to the end of the Fiscal Year. As a result of our audit, the Library cancelled these commitments and increased its available fund balance.
- Commitments totaling \$182,642 from FY 1998-99 and \$501,101 from FY1999-00 should have been set up as accounts payable. The Library had direct purchase orders (POs) that became commitments after the end of the Fiscal Year, even though the Library received the goods from the vendor prior to the end of the Fiscal Year. The Library indicated that their policy is to not establish an accounts payable for direct POs. However, according to the Auditor-Controller's Fiscal Year end closing instructions to County departments, expenditures should be accrued against any type of vendor encumbrance, including direct POs and contracts, as long as the goods and services are received on or before June 30. Not accruing expenditures at year-end inaccurately reflects the Library's accounts payable.
- We also noted other instances of commitments that should have been established as accounts payable. Commitments totaling \$16,438 from FY 1998-99 and \$103,146 from FY 1999-00 were established even though the goods were received prior to end of the Fiscal Year.

Library management should ensure that commitments are carefully reviewed to determine the amount that should be carried forward into the next Fiscal Year and that amounts no longer needed are cancelled. In addition, management needs to ensure that accounts payable are established for goods and services received on or before June 30, but not paid for until the next Fiscal Year.

Recommendations

Public Library management ensure that:

- 5. Commitments are carefully reviewed to determine the amount that should be carried forward into the next Fiscal Year and that amounts no longer needed are cancelled.**
- 6. Accounts payable are established for goods and services received on or before June 30, but not paid for until the next Fiscal Year.**

Cash Handling Controls

Separation of Duties for Cash Transactions

According to CFM Section 1.1.3, cash handling duties must be separated to ensure that no one individual controls all key aspects (e.g., receiving, receipting, depositing, disbursing, reconciling and recording) of a cash transaction. This is necessary to reduce the likelihood of losses occurring and going undetected. We conducted fieldwork at three branch libraries and noted that one of the libraries did not maintain adequate separation of duties. Two assistant librarians performed collecting, receipting, and depositing duties. Library management should review cash controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.

Recommendation

- 7. Public Library management review cash controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.**

Safe Combinations

According to CFM Section 1.1.4, employees entrusted with a safe combination should safeguard the combination. In addition, safe combinations should be changed when an individual who has knowledge of the safe combination leaves County service, when a security breach occurs, or when any other reason that warrants a safe combination change occurs.

At two of the three branch libraries we visited, a copy of the safe combination was kept in an unlocked desk drawer. Library staff informed us that although they have changed the safe combinations in the past, the three libraries had not changed their safe combinations in over three years. Public Library management should ensure that safe combinations are secured and changed in accordance with CFM requirements.

Recommendation

- 8. Public Library management ensure that safe combinations are secured and changed in accordance with CFM requirements.**

Procurement and Payment Practices

For FY 2001-02, the Library's services and supplies budget totaled approximately \$27.9 million. The Library's Procurement Section has overall responsibility for the procurement functions and is responsible for reviewing the requisitions and bid information. The Library's Accounts Payable staff is responsible for reviewing the invoices for accuracy, and comparing invoices to purchase orders and receiving reports before authorizing payment. Once the documents have been matched, the Accounts

Payable staff enters the payment voucher into the Countywide Accounting and Purchasing System (CAPS) to initiate payment to the vendor. Two levels of supervisors/managers are required to review the transactions online, and upon verification, approve the transactions electronically.

Non-Agreement Vendor Purchase Orders

Non-agreement vendor purchase orders should only be used when purchasing supplies that are not provided by agreement vendors. The Internal Services Department's (ISD) purchasing guidelines state that for purchases less than \$1,500, two solicitations are encouraged and at least three price quotes should be obtained for each purchase between \$1,500 to \$5,000.

We reviewed 30 non-agreement vendor purchases and noted the following:

- For five (17%) purchases over \$1,500, the Library did not obtain the required number of price quotations.
- Three (10%) purchases were missing required price quote information such as the contact person or the telephone number.

To ensure the Library receives the best possible prices, Library management should ensure Procurement staff obtains required price quotes and that all relevant quote solicitation information is documented.

Recommendation

Public Library management ensure:

- 9. Procurement staff obtains required price quotes and that all relevant quote solicitation information is documented.**

Regularly Purchased Items

The Library does not have an established discounted price for many items they purchase from non-agreement vendors. We reviewed other non-agreement purchases and determined that the Library regularly purchases books, periodicals, compact discs, and other items from non-agreement vendors who either do not offer a discount or the discount is less than what the agreement vendors offer for similar items.

We contacted one of the vendors who sold the Library \$4,965 in periodicals without a discount to determine if the Library could have obtained more favorable prices. The owner informed us he would offer an 8% discount from the list price and an additional 2% if payment were made promptly.

To help ensure that the Library is obtaining the best prices, the Library should have ISD establish agreement prices with vendors for items purchased on a regular basis. Also, the Library should request discounts on all items purchased from non-agreement vendors.

Recommendations

Public Library management:

- 10. Request ISD to establish agreement prices with vendors for items purchased on a regular basis.**
- 11. Request discounts on all items purchased from non-agreement vendors.**

Separation of Duties

CFM Section 4.1.3 requires departments to ensure that an adequate system of checks and balances (separation of duties) exists to minimize the risk of fraud and abuse in the procurement process. At a minimum, the requesting, approving requests, receiving and payment approval functions should be separated.

We reviewed 40 purchases and noted that 10 (25%) purchases had the same individuals requesting and signing for the receipt of goods or services. We also noted that for one purchase the same individual requested the goods and approved the requisition. Public Library management should ensure that an adequate separation of duties exists for the requesting, approving requests, and signing for receipt of goods or services.

Recommendation

- 12. Public Library management ensure that an adequate separation of duties exists for the requesting, approving requests, and signing for receipt of goods or services.**

Agreement Vendor Price Verification

We reviewed 20 agreement vendor purchases to determine if the amounts charged by the vendors were correct. While reviewing a purchase from one of the vendors, we noted another purchase from the same vendor where the vendor had mistakenly sent the Library an invoice for \$90,294 that should have only been for \$45,137. The Library paid the \$90,294 without verifying the invoice with the purchase order. The vendor found the mistake and sent the Library a refund approximately three months later. We also noted three other refund checks totaling \$8,633 that were a result of the vendor determining that they had overcharged the Library. At our request, the Library had the vendor audit the charges for purchases made in FY 1999-00, which was the first year they had made purchases from the vendor. The vendor determined that it had

overcharged the Library an additional \$3,359 and gave the Library a credit for that amount.

To ensure the Library pays the correct price for goods and services, the Library should require Procurement staff to compare invoice prices to the purchase orders prior to approving payment. Also, the Library should review its purchase orders on existing subscriptions and determine if additional overbillings exist. If additional overbillings are identified, the Library should request a refund or a credit from the vendors for the amount of the overbillings.

Recommendations

Public Library management:

- 13. Require Procurement staff to compare invoice prices to the purchase orders prior to approving payment.**
- 14. Review purchase orders on existing subscriptions for possible overbillings and request a refund or a credit from vendors for the amount of the overbillings.**

Vendor-Specified Purchases

A vendor-specified purchase order occurs when a selected group of vendors are specified in the purchase order. ISD Purchasing Bulletin #784 requires departments to compare vendor prices and select the most responsive and responsible vendor with the best overall cost consistent with the needs for the purchase of products and services. A minimum of three vendor quotes should be obtained.

We reviewed 20 vendor-specified purchases and noted five computer equipment purchases totaling \$97,542 from one vendor and another purchase for \$5,664 from a different vendor, where the Library only obtained one price quote. Library management should ensure they obtain price quotes for vendor-specified purchases consistent with ISD standards.

Recommendation

- 15. Public Library management ensure that they obtain price quotes for vendor-specified purchases consistent with ISD standards.**

Cash Discounts and Timeliness of Payments

Board policy requires departments to take all available vendor discounts and to pay vendors within 30 days of receiving the vendors' invoice. We reviewed 96 invoices with available discounts totaling \$2,397 and noted that in 84 (88%) instances discounts totaling \$2,194 (92%) were lost because payments were not made within the discount

period. In most instances, the discount terms were reflected on the vendors' standard invoice, but Receiving and Acquisitions staff did not always send receiving documents to Accounts Payable staff in time to obtain the discounts.

We also reviewed 20 of the 96 invoices to determine if they were paid within 30 days of receiving the vendors' invoices. We noted that 16 (80%) of the 20 invoices tested ranging from \$891 to \$28,957 were not paid within the required timeframe. The invoices were paid an average of 13 days late. These payments were not paid timely because delays occurred in forwarding the documents from the Receiving and Acquisitions staff at various stages throughout the payment approval process.

In order to maximize discounts taken and ensure vendor invoices are paid timely, Library management should require Receiving and Acquisitions staff to send receiving documentation to Accounts Payable in a timely manner.

Recommendation

- 16. Public Library management require Receiving and Acquisitions staff to send receiving documentation to Accounts Payable in a timely manner.**

Matching Payment Documents

The Library's Accounts Payable staff pays vendors using the CAPS online Payment Voucher (PV) system. All departments using the CAPS online PV system are required to develop internal control plans that must be approved by the Auditor-Controller. The Library's plan requires that payments be made only after staff review and compare invoices, purchase authorizations, and reports of goods received (i.e., receiving reports).

The Accounts Payable staff does not always comply with the Library's online PV control plan. We reviewed 70 purchases and noted the following:

- Twenty-three (33%) purchases were missing the requisition, quotation sheet, purchase order and/or the receiving report. Of the 23 purchases, 15 were missing the requisition, 16 were missing the quotation sheet, seven were missing the purchase order, and four were missing the receiving report. The Library needs to ensure that these items are included with the payment vouchers and reviewed prior to processing payments.
- Two invoices (3%) had amounts that differed from the amounts shown on the written quotation and purchase order. This resulted in unexplained payments totaling \$237 more than the amount shown on the written quotation/purchase order.

Library management should reinforce to Accounts Payable staff the importance of matching invoices to receiving reports and purchase orders prior to initiating payments to vendors and monitor to ensure compliance.

Recommendation

- 17. Public Library management reinforce to Accounts Payable staff the importance of matching invoices to receiving reports and purchase orders prior to initiating payments to vendors and monitor to ensure compliance.**

Use of Vendor Codes

CAPS maintains a Vendor Table (VEND) containing over 25,000 records. Information on the VEND includes the vendors' name, vendor code, address, and total current and prior year payments. CFM Section 4.3.6 requires that vendor codes be used to the fullest extent possible when processing vendor payments. The use of vendor codes reduces online data entry time, enables the ability to retrieve historical vendor payment data, edits for duplicate invoice payments, provides automated year-end 1099 reporting to the IRS, automates the Community Business Enterprises activity, and provides summary reporting on Countywide purchasing activity. Generally, departments should only use the miscellaneous vendor code ("MISC 01") for payments to employees or, if the department is fairly certain it will not make any future payments to vendors.

We tested 30 vendor payments and determined that 18 (60%) payments were made using the miscellaneous vendor code when the vendor was on the VEND. Library management should reemphasize to Accounts Payable staff the need to use vendor codes and should monitor staff to ensure compliance.

Recommendation

- 18. Public Library management reemphasize to Accounts Payable staff the need to use vendor codes and monitor staff to ensure compliance.**

Monitoring Suspense

CAPS maintains a suspense file of transactions entered into the system that have not obtained all the required approvals or that have not passed all the required computer edits. We reviewed the Library's suspense file and identified nine (15%) out of 62 transactions had been in suspense for more than 45 days. Not clearing the suspense items can result in untimely payments to vendors and increases the potential for erroneous payments. Therefore, Library management should perform reviews of the CAPS suspense file at least semi-monthly and ensure transactions in suspense are resolved timely.

Recommendation

- 19. Public Library management perform reviews of the CAPS suspense file at least semi-monthly and ensure transactions in suspense are resolved timely.**

Revolving Fund Purchases

CFM Section 4.4.1 states that the departmental revolving fund purchasing authority is intended to supplement, not replace, various vendor and other blanket purchase order procedures. Revolving funds may be used where emergencies exist, when prepayment is required, when immediate payment will result in a cost savings, where a purchasing advantage can be achieved or when the payment amount is \$25 or less. The CFM also states that departments must establish controls to ensure proper accountability and security over their revolving funds.

The Library does not always adhere to the CFM revolving fund guidelines. We sampled 49 revolving fund transactions and noted:

- Eighteen (37%) transactions were not allowable revolving fund expenditures. These expenditures included purchases of items such as books, decorations, flowers, and bathroom mirrors.
- Two (4%) transactions were missing invoices or receipts.
- Fourteen (29%) transactions had invoices or receipts that were not stamped "PAID" to prevent reuse.
- Four (8%) transactions did not have appropriate supervisory approvals.

Recommendations

Public Library management ensure:

- 20. Revolving funds are used only where emergencies exist, when prepayment is required, when immediate payment will result in cost savings, where a purchasing advantage can be achieved, or if the payment amount is \$25 or less.**
- 21. Invoices or receipts are included with the purchase documentation and marked "PAID."**
- 22. Appropriate supervisory approvals are obtained for all revolving fund expenditures.**

Contracting

Contract Monitoring

On June 22, 1999, the Board of Supervisors adopted the Living Wage Ordinance, which established requirements for contractors and subcontractors that conduct business with the County to pay their employees a minimum wage. Also, the County has an ordinance that permits debarment of a contractor that has committed an act or omission that indicates a lack of business integrity or business honesty. County departments are required to monitor contractors to ensure they comply with the Living Wage Ordinance and County contract requirements and to initiate the debarment process when appropriate.

Library management indicated, that due to staffing shortages, they were not effectively monitoring their contractors to ensure they are in compliance with the Living Wage Ordinance and County contract requirements. As a result, we performed reviews of two Library custodial contractors in April 2000, and September 2001. Our reviews noted several areas of non-compliance. One contractor subcontracted portions of its County contract without the Library's permission, did not maintain formal timekeeping documents, and paid custodial staff a fixed amount rather than the Living Wage rate times the hours worked. The second contractor did not provide us access to basic payroll and timekeeping information, as required by their County contract.

During our September 2001 reviews, we noted that one contractor had corrected the conditions noted in our April 2000 report, but still did not maintain formal timekeeping documentation. The second contractor still refused to provide us with basic timekeeping and payroll documentation. In December 2001, we notified the Library of the results of our second reviews.

Recently, the Library has taken action to improve its contract monitoring and ensure contractors correct areas of non-compliance in a timely manner. The Library reported that the first contractor had corrected the areas of non-compliance noted in our most current report by implementing a formal timekeeping system. The Library further indicated that they would more closely monitor to ensure the contractor uses the new timekeeping system. The contractor that refused to provide basic timekeeping and payroll documentation is on a month-to-month contract until the Library can find a replacement.

The Library needs to continue its recent efforts to effectively monitor contractors for compliance with the Living Wage Ordinance and the provisions of their County contracts. In addition, the Library needs to ensure that contractors take action to correct areas of non-compliance in a timely manner. Finally, the Library should initiate debarment proceedings against the contractor that refused to provide basic timekeeping and payroll documentation.

Recommendations

Public Library management:

- 23. Ensure contractors are monitored for compliance with the Living Wage Ordinance and the provisions of their County contracts.**
- 24. Ensure contractors take action to correct areas of non-compliance with the Living Wage Ordinance and the provisions of their County contracts in a timely manner.**
- 25. Initiate debarment proceedings against the contractor that refused to provide basic timekeeping and payroll documentation.**

Updating Countywide Contractor Database

The County maintains a contractor database that documents the performance of the contractors who have conducted business with the County. The purpose of the database is to provide a resource to use as an evaluation tool for County departments that are considering conducting business with the contractors in the database. Los Angeles County Code Chapter 2.202 requires County departments to update the contract database semi-annually for contractor problems and labor law violations. The Library did not do this for the contracts noted above. Library management should update the Countywide contractor database for contractor problems and labor law violations as required.

Recommendation

- 26. Public Library management update the Countywide contractor database for contractor problems and labor law violations as required.**

Contractor Documentation

The Library requires contractors to provide evidence of their general liability insurance, automobile liability insurance, and workers' compensation insurance. This is necessary to ensure the County is adequately protected against potential claims that could arise from contractor activities.

We noted that eight (57%) of the 14 contract files we reviewed were missing either current proof of automobile liability, workers' compensation, or general liability insurance. Library management should ensure that contractors have all required insurance as a prerequisite to conducting business with the Library and that appropriate documentation is maintained.

Recommendation

- 27. Public Library management ensure that contractors have all required insurance as a prerequisite to conducting business with the Library and that appropriate documentation is maintained.**

Payroll and Personnel**Processing Centers**

Employees can be grouped into processing centers (e.g., by Library branch) on the Countywide Timekeeping and Payroll/Personnel System (CWTAPPS) to control the payroll and information accessible to each authorized user. CFM Section 3.1.5 states that processing centers should be utilized so that payroll and personnel staff do not have access to their own payroll and personnel information on CWTAPPS.

The Library has only one processing center. As a result, all Payroll and Personnel staff have data entry access to every employees' payroll/personnel information, including their own. The Library should utilize more than one processing center to prevent Payroll and Personnel staff's access to their own payroll and personnel information on CWTAPPS. This would strengthen security controls over Payroll/Personnel by minimizing the likelihood of inappropriate transactions.

Recommendation

- 28. Public Library management utilize more than one processing center to prevent Payroll and Personnel staff's access to their own payroll and personnel information on CWTAPPS.**

Personnel Folders

According to CFM Section 3.1.10, Payroll Clerks must not have unsupervised access to employees' personnel folders. The Library's personnel records are kept in unlocked cabinets near the Payroll Clerks' work area. The records are not visible to Personnel employees. The Library should move personnel folders to a location that would allow Personnel employees to supervise access to the folders.

Recommendation

- 29. Public Library management move personnel folders to a location that would allow Personnel employees to supervise access to the folders.**

Notice of Separation Form

The Library requires a Notice of Separation (Notice) Form to be completed for all employees who resign or terminate their Library employment. The Regional

Administrator/Section Head is required to submit the Notice to the Library's Human Resources Development (HRD) Office within three working days from the effective date of separation. In addition, upon receipt, HRD staff should process the documents within two business days. The Library established these time frames in order to reduce and/or prevent post-period adjustments and overpayments.

We found that the Regional Administrator/Section Head does not always submit the notice to the HRD Office within the required three days. In addition, the HRD Office does not always process the forms within the required two days. Specifically, in five (25%) of 20 cases tested, HRD did not receive the Notice within three working days from the effective date of separation. These Notices ranged from four to 31 days late. In addition, HRD did not process four (27%) of 15 Notices sampled within two days. Although the delinquent processing of the Notices did require post period adjustments in some instances, we verified that no overpayments occurred.

Public Library management should ensure that the Regional Administrator/Section Head submits the Notice of Separation Forms to the HRD Office within three working days from the effective date of separation. In addition, Public Library management should ensure that the HRD Office processes the forms within two business days.

Recommendation

- 30. Public Library management ensure that the Regional Administrator/Section Head submits the Notice of Separation Forms to the Human Resources Development Office within three working days from the effective date of separation and that the Human Resources Development Office processes the forms within two business days.**

Terminated Employees

Several hundred Library employees terminate service each year. In order to ensure that terminated employees do not receive any unauthorized payments, an individual with no payroll responsibilities should trace the names of terminated employees to the Payroll Sequence Register for at least one month after termination. The Library does not perform this procedure.

Recommendation

- 31. Public Library management ensure someone with no payroll responsibilities traces all terminated employees' names to the Payroll Sequence Register for at least one month after termination.**

Payroll Distribution Payoffs

Unannounced payroll distribution payoffs should be conducted at least once a year by personnel with no other payroll or personnel responsibilities. This control helps ensure

that all employees receiving warrants or notices of direct deposits are bona fide. Payoffs are particularly important at the Library because it employs over 1,000 temporary employees.

The Library does not conduct periodic unannounced payroll distribution payoffs. The Library conducted payoffs at only 28 of its 103 pay locations between January 1999 and March 2001. Also, the Library announced the payoffs to staff in advance. The Library has not conducted any additional payroll distribution payoffs since March 2001. Public Library management should ensure unannounced payroll distribution payoffs are conducted at least once a year.

Recommendation

- 32. Public Library management ensure unannounced payroll distribution payoffs are conducted at least once a year.**

CWTAPPS Bonus Deadline

To ensure accurate payments to employees, departments must comply with Auditor-Controller deadlines for processing personnel and payroll transactions into CWTAPPS. Failure to meet CWTAPPS deadlines could result in employees being paid late.

We sampled 12 bonus transactions and noted that four (33%) were not entered into CWTAPPS by the deadline. On average, the four exceptions were entered into CWTAPPS 12 days late. Library management should ensure that employee bonus transactions are entered into CWTAPPS by the Auditor-Controller deadlines.

Recommendation

- 33. Public Library management ensure that employee bonus transactions are entered into CWTAPPS by the Auditor-Controller deadlines.**

Workers' Compensation Record Keeping

CFM Section 3.1.3 requires departmental payroll and personnel documents to be retained for at least five years for audit purposes. In addition, the Return to Work Coordinator Procedure Manual states "...the Third Party Administrator (TPA) will advise the employee by letter that they are a Qualified Injured Worker..." The TPA letter serves as notification of acceptance or rejection of the employee's workers' compensation claim, and establishes the compensability dates. Library management was unable to provide us with six (55%) of eleven TPA issued letters we requested. Library management should ensure that all workers' compensation documents are retained for at least five years.

Recommendation

- 34. Public Library management ensure that all workers' compensation documents are retained for at least five years.**

Overtime Controls

County Code Sections 6.09.05 and 6.15.040 require that the department head and CAO pre-approve all overtime worked. At the Library, we noted that not all overtime worked is pre-approved by the CAO. We sampled 30 timecards with overtime hours worked and noted five (17%) contained overtime hours that were not approved by the CAO. According to Library managers, they are not always made aware of changes to their Overtime Authorization Requests. The CAO approved Request for Overtime Authorization memos, which may differ from the requested overtime, are not distributed to the Library's Assistant Directors and Section Heads until the end of the quarter.

To improve its monitoring and control over overtime usage, Library management should ensure that the CAO approved Request for Overtime Authorization memos are distributed to the Assistant Directors and Section Heads at the beginning of each quarter.

Recommendation

- 35. Public Library management ensure that the CAO approved Request for Overtime Authorization memos are distributed to the Assistant Directors and Section Heads at the beginning of each quarter.**

CWTAPPS Reports

CWTAPPS generates 21 reports to assist managers in monitoring payroll/personnel operations. Many of the reports identify exceptions and departments are required to use the reports to ensure that employees are paid accurately. Library Payroll staff should review the reports and document the disposition of each entry. The Payroll Supervisor should also review the reports each pay period to ensure that the exceptions are corrected, and sign and date the reports as reviewed. We sampled seven of the exception reports and noted that Library Payroll staff and the Supervisor did not always review the CWTAPPS reports.

To ensure accurate payments to employees, Library management needs to ensure Payroll staff review and document their review of CWTAPPS reports and the Payroll Supervisors review the reports each pay period to ensure exceptions are corrected, and sign and date the reports as reviewed.

Recommendation

36. **Public Library management ensure Payroll staff review and document their review of CWTAPPS reports and the Payroll Supervisors review the reports each pay period to ensure exceptions are corrected, and sign and date the reports as reviewed.**

Fixed Assets and Portable Equipment**Physical Inventories**

CFM Section 6.1.3 requires departments to conduct annual physical inventories of all fixed assets and portable equipment and to reconcile the results to the department's master listing. We noted the Library's practice is to inventory fixed assets every even numbered year and to inventory portable equipment every odd numbered year. Public Library management should ensure that annual physical inventories of all fixed assets and portable equipment is conducted as required to ensure irregularities are identified and investigated in a timely manner.

Recommendation

37. **Public Library management ensure that staff conduct annual physical inventories of all fixed assets and portable equipment as required to ensure irregularities are identified and investigated in a timely manner.**

Portable Equipment Listing

Section 6.4.2 of the CFM requires departments to maintain a department-wide list of all portable equipment items and the name of the individual each item is assigned to. At each location, all items not permanently assigned to individuals should be assigned to one individual who is responsible for securing/controlling the items when they are not being used. These requirements are designed to minimize the risk of portable items being misappropriated without being detected and to help ensure that the accounting records are accurate and complete.

At the Library, the Fiscal Services Section is responsible for maintaining the portable equipment inventory listing. We sampled 20 portable equipment items listed on the Library's Perpetual Inventory listing and noted 11 (55%) were not in the location indicated on the inventory listing.

- Seven (64%) of the portable equipment items were Gateway Computers that we could not locate at the Library's warehouse. The Library's staff told us that the computers were sold at auction on January 13, 2001. We reviewed the inventory list of auction items and only one Gateway CPU and two Gateway monitors were listed. No other Gateway items were noted.

- Four (36%) of the portables were Toshiba computers that were assigned to the Library's warehouse. The Library's staff later informed us that three Toshiba computer serial numbers on the Perpetual Inventory listing were incorrect and furnished us with the correct serial numbers and eventually all four computers were located.

The Library needs to ensure that it maintains accurate portable equipment listings and that missing items are investigated. Also, the Library needs to remind Library locations of the importance of notifying the Fiscal Services Section of inventory changes to facilitate inventory record accuracy.

Recommendations

Public Library management:

38. **Ensure the Library's portable equipment listings are accurate and that missing items are investigated.**
39. **Remind Library locations of the importance of notifying the Fiscal Services Section of inventory changes.**

Safeguarding Portable Equipment

CFM Section 6.4.2 requires departments to maintain all unassigned portable equipment in a secured area. We observed that the Library is maintaining approximately 100 new computers, 100 new monitors, and 233 new printers in the original boxes at the headquarters location. We observed that some of the items were stored on pallets in an unmonitored and unsecured area at the Library headquarters for over five months, while others were stored in an unsecured area for over two years. The Library indicated that it used one-time money to purchase most of the equipment and it acknowledges that delays have occurred in deploying the equipment to its field locations. To reduce the risk of lost or stolen computer equipment, Library management should ensure that all unassigned portable equipment is stored in a secured area. In addition, Library management needs to develop a plan to ensure portable equipment is delivered to field locations as soon as possible.

We also noted that the Library's Fiscal Services Section does not have a record of the new computers and equipment referred to above. CFM Section 6.1.3 requires departments to maintain records for equipment items costing less than \$5,000 and which are susceptible to theft. The Library's practice is to not record the serial number or assign a County identification (ID) tag number until the equipment is placed into service. However, to ensure proper accountability over the Library's assets, Library management should record the serial numbers of new equipment upon receipt, and report this information to the Fiscal Services Section.

Recommendations

Public Library management:

- 40. Ensure that all unassigned portable equipment is stored in a secured area.**
- 41. Develop a plan to ensure portable equipment is delivered to field locations as soon as possible.**
- 42. Record the serial numbers of new equipment upon receipt, and report this information to the Fiscal Services Section.**

Inventories

Inventory Balances

CFM Section 5.2 requires departments to properly account for and report stock issues, transfers, retirements, and to investigate losses timely. The CFM also requires departments to order inventory items only when needed and to perform periodic reviews of inventory records to identify slow moving, obsolete, and/or overstocked items.

We sampled 20 inventory items to review the Library's compliance with the CFM inventory requirements and we noted the following:

- Thirteen (65%) supply room inventory card quantities did not match our physical count. Also, six (30%) supply room inventory cards contained basic errors in adding and subtracting that resulted in inaccurate balances. Library management should instruct staff to properly account for changes in inventory, conduct periodic test counts to verify inventory accuracy, and investigate significant inventory variances.
- Two (10%) items should have been considered obsolete and designated for disposal. Library management should periodically review the inventory records to identify obsolete items.

Recommendations

Public Library management:

- 43. Instruct staff to properly account for changes in inventory, conduct periodic test counts to verify inventory accuracy, and investigate significant inventory variances.**
- 44. Periodically review the inventory records to identify obsolete items.**

Inventory Reporting

CFM Section 5.3.1 requires departments that have a year-end supply inventory value of \$50,000 or greater to take a physical inventory at each location and report the results to the Auditor-Controller's Accounting Division as of June 30. We noted that the Library's inventory balance totaled approximately \$360,000 as of June 30, 2001, and that the Library had not reported the inventory value to the Auditor-Controller. In December 2001, Library management reported its inventory balance to the Auditor-Controller after we brought the matter to their attention. Library management should ensure that the value of the supply inventory is reported to the Auditor-Controller as required.

Recommendation

- 45. Public Library management ensure that the value of the supply inventory is reported to the Auditor-Controller as required.**

Cellular Telephones

The Library utilizes approximately 20 cellular telephones, currently assigned to individuals, shared as a pool, or reserved for emergencies only. According to the Library's Administrative Manual and CFM Section 4.5.2, individual cellular telephone users must verify that the charges on cellular telephone bills are correct. Also, personal telephone calls must be identified and cellular telephone users must reimburse the County for the calls within 30 days of bill receipt. The Library's cellular telephone expenditures were \$16,869 for FY 2000-01.

At the Library, we noted that cellular telephone users do not always verify the accuracy of cellular telephone bills. Forty-three (73%) of 59 cellular telephone bills we reviewed did not contain the user's signature to document their verification of the cellular telephone charges. Fifteen (35%) of the 43 cellular telephone bills are for telephones that are shared or reserved for emergencies and did not have any call activity except for regular monthly charges. Library management did not believe that it was necessary to have the bills verified by the responsible managers since they did not contain any call activity. Library management should ensure that all cellular telephone users verify charges to ensure they are correct and document their review by signing the bill.

Recommendation

- 46. Library management ensure that all cellular telephone users verify charges to ensure they are correct and document their review by signing the bill.**

Gasoline Credit Cards

CFM Section 4.2.5 requires department credit card holders to ensure their credit card is adequately secured by restricting access to it at all times. The Library uses gasoline

credit cards to cover refueling expenses of its 48 pool and maintenance vehicles. The vehicles have special lock boxes to secure the credit cards. We attempted to find 10 of the cards to determine if they were adequately secured. Two of the 10 cards could not be located. Based on our results, the Library staff inventoried all 48 assigned gasoline credit cards and determined that seven were missing. The Library contacted the credit card company and requested the immediate cancellation of the cards. In addition, the Library reviewed its credit card charges for the previous 12 months and did not find any charges associated with the missing credit cards.

The Library should periodically inventory its gasoline credit cards and investigate any missing cards.

Recommendation

- 47. Public Library management periodically inventory its gasoline credit cards and investigate any missing cards.**

Travel Expenses

The Library's Claim for Travel Advance form states that expense claims must be submitted through proper approval channels and received by the Fiscal Services Section within thirty days of the completion of each approved trip. We reviewed 20 expense claims and determined that four (20%) were submitted within 31-99 days, five (25%) were submitted within 100-347 days and two (10%) were submitted approximately one year after completion of the claimants' trips.

Library management should remind claimants of Library policy requiring expense claims to be submitted through proper approval channels and received by the Fiscal Services Section within thirty days of the completion of each approved trip.

Recommendation

- 48. Public Library management remind claimants of Library policy requiring expense claims to be submitted through proper channels and received by the Fiscal Services Section within thirty days of the completion of each approved trip.**

November 19, 2002

TO: J. Tyler McCauley
Auditor-Controller

FROM: Margaret Donnellan Todd
County Librarian



RESPONSE TO AUDITOR-CONTROLLER FISCAL REVIEW

The Department of Public Library is in general agreement with the 48 recommendations made in your fiscal audit report. We will provide a detailed response to each of the recommendations within 60 days. Currently, we have implemented or are in the process of implementing the corrective actions for many of the recommendations.

Michael Hanks, Head, Fiscal Services will serve as the Department's Audit Coordinator. On a periodic basis, he will follow-up on outstanding recommendations and ask the responsible managers to submit documentation to demonstrate the corrective action taken.

However, as discussed with your staff, we are concerned that some of the recommendations cannot be implemented without additional administrative resources. For example, in our 2002-03 budget, we requested an additional position to strengthen our ability to monitor internal controls and complete the Internal Control Certification Program (ICCP), as required; however, the Chief Administrative Office was unable to approve our budget request due to funding limitations. We will continue to work with the CAO and Board offices to address the resource issues.

We are also concerned that your report does not disclose that non-scientific (i.e., non-random) sampling techniques were used by your staff in this review. It appears that these techniques allow your staff to better focus their efforts on identified problem areas. Our concern is, that without appropriate disclosures, readers of the report might erroneously project error rates from your sample onto the Department as a whole. To avoid this issue, we would ask that you make appropriate disclosures in your final report.

We greatly appreciate your assistance and the assistance of your staff in this review. If you have any questions regarding this response, please call me, or your staff may contact Michael Hanks at 562-940-8447

c: ExCom
Michael Hanks

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